

**GCB Presentation to
Consumer Analyst Group
Scottsdale, Arizona
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Draft #1
(8 minutes)**

Now, I would like to review the worldwide tobacco business beginning with PM-USA.

Nearly one year ago, PM-USA announced a new strategic direction designed to meet three principal objectives:

First, restore overall share of market to ensure long term operating income and cash flow growth;

Second, maintain Marlboro's equity and scale, and restore its market share; and

Third, achieve a position in discount on the basis of quality and trademark equity that would assure a stable share in that segment as well.

Following the April 2nd announcement, several major programs were initiated.

- From May through July, Marlboro was price promoted on a national level.
- In August, the ^{wholesale} list price of Marlboro and our other Premium brands were reduced ; and
- several equity building programs were launched behind Basic.

These actions significantly ^{impacted our business} altered the domestic cigarette industry.

We see in the marketplace can be depicted as follows.
At the beginning of 1993, 99¢ cigarettes could be found in nearly one out of every four stores. Today, the incidence of 99¢ pack prices has fallen by over 50%.

In convenience stores, the price of Marlboro and our other premium brands has fallen from over \$2.20 to \$1.87 per pack, while the average price of the lowest

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discount products has increased from \$1.13 to \$1.31 per pack. As a result, the price gap has been cut in half to 43%.

Growth of the discount category has dramatically slowed. Discount, which had been expanding at one share point per month, peaked in May at 36.3% and has since fallen to 32.3%. Moreover, Private Label, the lowest priced products within discount, declined from 9.0% to 6.9%.

our business
In summary, the ~~domestic cigarette market~~ has been transformed from one where consumers were basing their purchase decisions solely on price to one where brand equity is ~~regaining the upper hand~~. *regaining its position of importance*

The actions taken in 1993 met all major objectives we set on April 2nd and the positive trends have continued into 1994.

- Marlboro's price is more competitive.
- Its share is up, demonstrating that Marlboro's equity is strong enough to overcome the price gaps still in the marketplace. Approximately TK% of Marlboro's share gains came from discount brands, the remaining TK% from premium. Marlboro remains the brand of choice among young adults. Its median age is nearly TK years younger than its closest competitor, and its share is larger than the next 5 brands combined. *! } ??*

You may want to take this out

- PM-USA's other premium brands are also more competitively priced and are showing share momentum.
- Finally, on the strength of Basic, we improved our competitive position in discount while the category as a whole declined. *dispute the fact that*

To summarize our market performance since April 2nd: PM-USA increased total share 3.3 points to 45.0%. Marlboro's share grew 4.5 points. Our share of the premium segment was up 3.4 points. The discount category declined 3.6 share points. And, our share of discount was up 0.7 share points to 28.9%.

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In 1994, PM-USA will continue to invest in brand equity to strengthen the foundation for future growth, ~~in what is now a more stable but sensitive market place.~~

In order to strengthen Marlboro's core values, its advertising will return to Marlboro country with increased support of Marlboro Lights.

We believe that Marlboro Adventure Team was one of the most successful consumer promotions ever conducted and in April we will launch an exciting and fresh continuity program -- Marlboro Country Store.

Marlboro Country Store is a program that builds upon a contemporary "Western" theme consistent with Marlboro Country and popular among today's young adult smokers. It's main objectives are to build brand loyalty and discourage consumer outswitching.

Like MAT, Marlboro consumers can get free incentive items by collecting Country Store symbols from their Marlboro packs. Country Store features popular items like denim jackets, western blankets, gear bags and even pool tables.

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It will also provide an umbrella theme for Marlboro's retail promotions, direct mail and in store point-of-sale.

To further enhance our other Premium Brands, Merit, Benson and Hedges, and Virginia Slims, we will invest in advertising and image based promotion. Merit's "Yes You Can" campaign will continue through 1994; B&H will introduce new advertising; and we will continue to run Virginia Slims' updated advertising and the successful V-Wear continuity program.

Our strategy in Discount is to build discount brands with equity so they can compete on the basis of brand values as well as price. We will continue to support Basic with advertising and promotional programs that reinforce its low price and good taste. Cambridge will introduce new advertising and receive promotional support.

Now, I would like to discuss industry volume. In 1993, industry shipments were 461.6 billion units, 9.0% less than in 1992. Consumer take away, however, was down only approximately TK%, in line with the recent years. The larger decline in industry shipments was attributable to a reduction in trade inventory levels occurring with the August price reduction and the lack of manufacturers' year-end inventory programs.

PM's shipment share in 1993 was 42.2%, down less than one tenth of a share point from 1992, despite the lack of a year end program. RJR's share increased 1.7 share points. In 1992, RJR's share suffered due to their relatively smaller trade program. However, in 1993, RJR's share benefitted when competitors decided not to offer year end programs.

Fourth quarter 1993 shipment shares provide a better perspective on market place positions as we enter 1994. PM-USA was 14.2 points ahead of RJR.

The Federal Excise Tax is the primary issue facing PM-USA in 1994. The shape of health care reform is still up for debate. Several alternate plans to the Clinton proposal have emerged that do not require as much funding, and these other plans are gaining momentum. We are confident that industry efforts, as well as

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those by other concerned parties, will be sufficient to avoid a 75¢ per pack increase in the Federal Excise Tax. We are closely watching the developments and are prepared to respond under a variety of outcomes.

In addition to the Federal Government, there are a few states looking to excise taxes as a source of funding. In the past, we have had success in holding the overall state excise tax increase down to 8.5% per year. Given that this is an election year, we are confident that this rate will hold in 1994. We are responding to these threats as they arise.

In 1994, we plan to:

- manage for share and profitability in all growing segments,
- support Marlboro's growth,
- maintain our position in discount, ^{and be alert to} ~~but be alert to any worrying signs of~~ growth in the discount category or any trends that threaten Basic, and
- compete on the basis of brand equity, ~~but respond to price threats as necessary.~~

We made hard decisions in 1993. We knew Marlboro had legs if priced appropriately, and we have had success against all major objectives.

PM-USA enters 1994 with stronger brands positioned for medium to long-term profit growth. We will continue to support our brands with traditional equity building marketing programs, ^{to support} ~~but will mount a ferocious defense if our market leadership is threatened.~~ ^{and we will continue to protect our hands against competitors' threats}

Finally, Marlboro's leading position in the U.S. provides an important platform for expansion into growing international markets.

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